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Surveys of Consumers

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REBOUND FROM CRASH WANES

- The Index of Consumer Sentiment was 91.2 in the April 1988 survey, down from 94.6 in March. The April reading remains well above the post crash low of 83.1, and just below the year earlier reading of 92.8. The April decline was largely concentrated in personal financial evaluations, which have receded from the record levels recorded in the first three months of 1988, but nonetheless remained at favorable levels.

- Among families with incomes of $30.000 or more, the Index of Consumer Sentiment was 99.1, down from 103.7 one month earlier, but slightly ahead of the 98.5 recorded one year earlier.

- The proportion of families that reported an improved personal financial situation in the April 1988 survey fell to 41 percent, down from the twenty year peak of 49 percent in March. Even after this decline, the April reading was just above the year earlier mark and more favorable than the cyclical peak recorded in the late 1970s. The April decline was due to fewer reports of family income increases. From January to March of this year, nearly 40 percent of all families reported that they received income increases; in April, the proportion dropped to 30 percent.

- In addition to fewer reports of income increases during the past year, the survey also recorded declines in prospects for the year ahead. Among all families in the April survey, 34 percent expected their financial situation to improve, down from 39 percent in both the February and March surveys. However, this decline still leaves personal financial prospects at very favorable levels. Just 9 percent of all families expected their financial situation to worsen during the year ahead, while the majority of families expected their financial situation to remain largely unchanged.

- In the April 1988 survey more families judged the national economy to have improved than worsened during the past year by the margin of 47 to 36 percent. This reading reverses the post crash lows, and is comparable to the year earlier reading. Most consumers expect the performance of the national economy to remain largely unchanged during the year ahead, with the balance of opinion tilted slightly toward improvement by the margin of 21 to 18 percent, equal to the year earlier level.

- The April 1988 survey recorded somewhat more favorable short term prospects for the national economy, while the longer term outlook lost some ground. Among all families, 50 percent expected good times financially in the country as a whole during the year ahead, up from 47 percent in March, and just below the 51 percent recorded one year earlier. In contrast, favorable long term expectations were held by 36 percent of all families in April, down from 39 percent one month earlier and 41 percent one year earlier.

- This overall outlook for continued but sluggish economic growth has been reflected in relatively favorable unemployment and price expectations, while interest rate expectations have remained troublesome.

- The national unemployment rate was expected to remain largely unchanged during the year ahead at its current ten-year low by the majority of families in the April 1988 survey (56 percent). The proportion that expected the national unemployment rate to increase stood at 28 percent in April, down from the post crash high of 36 percent and the year earlier reading of 33 percent.

- Increases in interest rates during the year ahead were expected by 48 percent of all families in the April 1988 survey, a reading that has remained largely unchanged since the stock market crash. While this represents a significant improvement from the months prior to the crash, when two-thirds expected interest rate increases, it still remains unfavorable and the focal point of concern with current economic prospects.

- Attitudes toward buying conditions for household durables, vehicles, and homes have all remained at very favorable levels in the most recent survey. Favorable attitudes toward vehicle buying conditions were held by 63 percent of all families in the April 1988 survey, just between the 62 percent recorded one month earlier and the 64 percent recorded one year earlier. Buying conditions for appliances, furniture, and home electronics were viewed favorably by 73 percent of all families in April, just above the 71 percent recorded one month earlier and just below the 74 percent recorded one year earlier. Favorable home buying attitudes were held by 72 percent of all families in April, a strong improvement from the post crash low of 58 percent, but still below the record levels recorded a year earlier.

- The maintenance of favorable buying attitudes at high levels has been accompanied by a shift in the underlying reasons given by consumers. During the past year favorable references to interest rates have declined in frequency, shifting more of the emphasis to low and discounted prices. The availability of low interest rates on vehicle purchases were reported by 21 percent of all families in April 1988, down from 37 percent one year earlier; the availability of low mortgage rates were mentioned by 40 percent in April 1988, down from 60 percent one year earlier. In contrast, perceptions of market prices remained very favorable, with twice as many families that cited the availability of low and discounted prices than complained about high prices for household durables (32 versus 7 percent), homes (20 versus 10 percent), and vehicles (30 versus 15 percent).

- Consumer confidence is now more favorable than it would have been if the crash had not taken place. Fearing the worst, the actual developments in the economy since the crash have been judged more favorably than they would have been otherwise. Given the widespread fear and uncertainty spawned by the crash, just avoiding a recession became good news. But such good news quickly becomes old news, and loses its influence on evaluations. The small decline in the April survey reflects this process.

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The April 1988 survey was conducted between April 1 and April 28, 1988 and included 504 completed interviews.